

# **BUSINESS ASSISTANCE PROGRAM**

## **Purpose**

The purpose of the Business Assistance Program is to provide the opportunity for qualified, eligible, small and minority for-profit businesses, both existing firms and start-up firms, located within the Neighborhood Revitalization Area to apply for business loans from private lenders.

## **Program Features**

For qualified, eligible for-profit businesses, business education, business plan development and loan application processing (non-SBA fees) will be provided at no cost to the borrower. Loans may have flexible terms and below market interest rates. Loans will generally consist of a 2:1 ratio of private lender funds to HUD Section 108 funds. For HUD Section 108 portion of the loan, interest will be waived for the first 12 months and only interest is due during the first 36 months of the Section 108 loan. However, the borrower must pay principal and interest to the lender for the lender's portion of the loan starting at the beginning of the loan.

## **Ineligible Loan Activities**

Loans under this program cannot be used to refinance existing debt, be used for revolving debt or used for bridge financing. Listed below is a partial listing of activities that cannot be financed with loan proceeds:

Strip Malls  
Non-Profits  
Gambling  
Liquor Stores  
Residential Property  
Investment Property  
Illegal Enterprises  
Life Insurance Co.

Speculative Properties  
Pyramid Plans  
Speculation

Passive Holder of Property  
Business Located In a Foreign Country or  
Owned by Non-Resident Aliens  
Businesses Which Restrict Patronage  
Government Owned Entities  
Businesses Engaged in Promoting Religion  
Businesses Engaged In Loan Packaging  
Businesses Providing Sexual Material or Services  
SF Rentals/Duplexes

## **General Loan Requirements**

- Loans (not grants) may be available for new and existing small and minority businesses, which meet SBA/HUD eligibility standards.
- Loans may be made to retail, service and manufacturing companies subject to SBA requirements.
- Loan amounts are for a minimum of \$25,000 up to \$1 million dollars.
- Loans can only be made to businesses located within the Neighborhood Revitalization Areas.
- Loans must result in job creation (one job per \$35,000 of Section 108/EDI funds).
- Loans will require borrower cash down payment in accordance with lender/SBA requirements (minimum of 10% of loan).
- Loans must have appropriate collateral as required by SBA and the lender. The pledge of additional personal collateral may be required.

Lending Firms

Businesses Which Have Previously Defaulted On A Federal, State or Local Loan

Political or Lobbying Activities

Certain Types of Franchises

**Screening Criteria**

All applicants for loans will be screened on the following criteria:

Credit History

Criminal History

Historical Ability to Repay

Future Ability to Repay

Management Ability

Credit history will be verified before intensive business assistance is provided. If appropriate, businesses will be referred to credit restoration agencies to improve credit before proceeding with the Business Loan Program.

**Applications for Business Loan Program**

To apply for the Business Loan Program, a Preliminary Information form is required.

Preliminary Information Forms (copy attached) may be obtained from and submitted to any of the following locations:

Wichita State University

Kansas Small Business Development Center

Metropolitan Complex

29<sup>th</sup> and Oliver

Phone: 978-3193

[www.wichita.edu/~ksbdc/](http://www.wichita.edu/~ksbdc/)

Kansas Minority Business Development Council

350 West Douglas

Wichita, Kansas 67202

Phone: 268-1154

[www.kmbdc.org](http://www.kmbdc.org)

Wichita Technology Corporation

7829 E. Rockhille Rd.

Suite 307

Wichita, Kansas 67206

Phone: 651-5900

[www.wichitatechnology.com](http://www.wichitatechnology.com)

**Orientation Sessions**

All applicants will be required to attend an orientation session at the Small Business Development Center prior to enrollment in the Business Loan Program.

## **Required Information**

To apply for a loan, the borrower must attend orientation at the Kansas Small Business Development Center, complete the Preliminary Information Form (copy attached), successfully complete the credit history review and provide a Pre-Application with the following information:

### **Pre-Application Contents**

#### **Existing Business**

- Credit Review
- Sources and Uses of Funds
- Project Description
- Last 3 Years Tax Returns
- Last 3 Years Profit/Loss Statements
- Balance Sheet (Including Aged Accounts Receivable)
- Personal Financial Statement
- Changes in Cash Position
- Schedule of Existing Debt and New Debt

#### **New Business**

- Credit Review
- Business Plan

The Pre-Application will be reviewed by the participating lender and by the Loan Review Committee. The applicant must be current on all municipal taxes and be able to obtain all appropriate permits. If the Pre-Application is approved for further processing, the applicant will submit a Final Loan Application to South Central Kansas Economic Development District (SCKEDD), 209 E. William, Wichita, Kansas 67202, telephone 262-7062. The Final Loan Application consists of the following elements:

#### **Final Loan Application Contents**

- History of the business.
- Projected profit and loss statement for two years.
- Projected balance sheet.
- Narrative detail of marketing assumptions.
- Current balance sheet and profit and loss statement (no older than 60 days).
- Balance sheet and profit and loss statement and tax returns for the last 3 years.
- A schedule which contains the original date, amount, interest rate, present balance owed, monthly payment,

maturity date and security for each loan that your business currently has.

- Schedule of debt financing for the next year.
- Monthly cash flow analysis for the next 12 months or 3 months beyond the break-even point.
- Names of affiliates and/or subsidiary firms.
- Current personal financial statement for each proprietor, partner and stockholder with more than 20% or more ownership of the business in the last 3 years.
- Tax returns for the last 3 years for each of the above.
- Resumes of the principals involved in the project management with 3 references.
- SBA Form 912 (Personal History Statement) on all officers or directors (regardless of ownership) and all owners of 20% or more in the company.
- A copy of the existing or proposed lease or purchase agreement or other financing arrangements.
- Environmental questionnaire.
- Bid cost of plans and specifications covering the cost of new construction and/or machinery and equipment.

- An independent appraisal on as completed basis (after approval/prior to funding).
- A schedule of previous government financing by any principals or affiliates (including the SBA).
- If a franchise, a copy of the franchise agreement.

## BUSINESS ASSISTANCE PROGRAM SUMMARY

### **Problem:**

Local lending institutions indicate the *highest concentration of rejected business loan applications* occur in the NRA Revitalization Areas.

### **Purpose:**

Remove barriers to capital formation by small and minority businesses in the Neighborhood Revitalization Areas by providing HUD Section 108 loans to existing and start up small and minority businesses that would not otherwise receive commercial bank loans while encouraging commercial lenders to make more loans in the target area.

### **Background:**

HUD Section 108 loans can be made to any type of business enterprise for any business purpose, including facilities, equipment and/or working capital. In addition to other security features, Section 108 loans are secured by the City's future CDBG allocations. A default on a HUD Section 108 loan payment will be covered by the City's next CDBG allocation in the amount of the defaulted payment.

An EDI grant can be used to additionally secure a HUD Section 108 loan, as a loan-loss reserve, thus reducing the risk to future CDBG funds. Section 108 loans will be targeted to the Neighborhood Revitalization Areas.

### **Program Structure:**

Apply to HUD for \$1 million in Economic Development Initiative ("EDI") funds and leverage it with \$3 million in HUD Section

108 Loans to provide total City funding of \$4 million. Private financial institutions will be required to match City 108 funding on at least a two-to-one basis, to provide a *total loan pool of \$9 million*. HUD will provide free technical assistance to the City on how to structure a Section 108 loan program.

City EDI funds of \$1 million will be used to create a loan-loss reserve that earns interest, cover Section 108 loan interest payments for up to 12 months and pay for technical assistance to enable businesses to qualify for loans. Earnings from the invested EDI funds will be used to buy down the interest rate on the Section 108 loan. Based on current market interest rates, lending rates could be 4.7% for Section 108 funds and 9.5% for private matching loans, yielding a blended loan rate of 8.125% for borrowers.

EDI reserves will serve as the safety net to prevent loss of CDBG funds if the Section 108 loans result in default. A larger loan pool involving private financial institutions spreads the risk further, on a two-to-one basis. A greater number of smaller loans, as compared to fewer larger loans, will diminish the risk to future CDBG funds. Conversely, a small loan in default has less impact than a larger defaulted loan.

**Mechanism:**

Using marketing materials prepared jointly by the City and participating lenders, grassroots economic development organizations, such as South Central Kansas Economic Development District (SCKEDD), Kansas Minority Business Development Center, Small Business Development Center and Wichita Technology Center will serve as screening agencies, assist with business plan development and application preparation and provide on-going loan servicing.

Loans will be available for retail, service and manufacturing for both start-up and existing small business enterprises. Applications will be reviewed by a joint committee consisting of City and lender representatives. Loans approved by the loan review committee will be presented to HUD and the loan committee of a participating lender for final approvals. Each loan will be funded with a combination of Section 108 loan proceeds (30%) and a commercial loan (60%), with a 10% borrower down payment required. Participating lenders will be responsible for performing the required loan underwriting, on a rotating basis, subject to City Council approved lending policies. Section 108 and bank loans will have an equal pro rata claim on borrower funds available for debt service and on any pledged loan collateral.

**Scenario:**

The following scenario illustrates a possible \$100,000 small business enterprise loan. The graphic focuses on the flow of funds and the interplay of individual funding sources coordinating to form a sound business development loan. Consider the following business development loan scenario:

## CAPITAL REQUIREMENTS AND ASSUMPTIONS

- ***Loan Amount*** **\$100,000**
- Borrower Down payment \$10,000
- Section 108 Loan \$30,000 @ 6.5% 72 Months\*
- Business Loan (SBA) \$60,000 @ 9.5% 72 Months
- @ 8.125% Blended Rate

*\*Note:* Interest payment only for first 36 months on Section 108

## LOAN REPAYMENT SCENARIO (\$100,000 LOAN)

Fund Category	Term	Monthly Payment	Paid by Borrower		EDI Funded		
			Interest	Principal	Interest	Principal	Other
<b>Down Payment</b>				\$10,000			
<b>Section 108</b>							
	Months 1-12	\$134			\$1,613		
	Months 13-36	\$134	\$3,225				
	Months 37-72	\$887	\$1,936	\$30,000			
<b>Business Loan</b>							
	Months 1-72	\$1,096	\$18,947	\$60,000			
<b>Totals</b>			\$30,802	\$100,000			
EDI Funds	Loan Loss Reserve (25%)						\$7,500
	Education (.75%)						\$225
	Application Assist. (.75)						\$225
	Processing Fee (.75%)						\$225
Interest Income	Servicing (.375%)		*This is included in the Section 108 Loan rate				